

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING  
(UPS PROPOSALS ONE, TWO, AND THREE)

Docket No. RM2016-2

**MOTION OF THE UNITED STATES POSTAL SERVICE  
SEEKING ISSUANCE OF INFORMATION REQUESTS TO  
UNITED PARCEL SERVICE**  
(November 20, 2015)

UPS sought initiation of this proceeding to consider several proposals it was making regarding postal costing methodologies. See, Order No. 2793 (Oct. 29, 2015). In accordance with 39 CFR § 3050.11(c), the Postal Service requests that the Commission pose to UPS the appended questions and requests for information. Responses on these subjects would allow the Commission and interested parties to better evaluate the merits of the UPS proposals.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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November 20, 2015

1. Please refer to UPS/RM2016-2/1, Figures 1, 2 and 3 and Tables 1, 2, and 3.

a. Please confirm that certain products or volumes may be classified as Market Dominant Mail Products in some fiscal years and Competitive Mail Products in other fiscal years. If you do not confirm, please explain fully.

b. Please confirm that Standard Mail Commercial machinable and irregular parcels were considered to be Market Dominant Mail Products in all fiscal years prior to the reclassification of these mail pieces as Lightweight Parcel Select mail pieces for the purposes of Dr. Neels' analysis. If you do not confirm, please indicate which category these volumes were in for all fiscal years.

c. Please confirm that the pieces included in First-Class Package Services were considered to be Market Dominant Mail Products in all fiscal years prior to the classification of this product as a Competitive Mail Product for the purposes of Dr. Neels' analysis. If you do not confirm, please indicate which category these volumes were in for all fiscal years.

d. For each of the tables and figures referenced in the introduction to this question, please provide the exact listing of which products are included in Market Dominant Mail Products and which products are included in Competitive Mail Products. Unless the listings were unchanged throughout the entire period covered by a figure or table, please provide a separate listing for each year.

2. Please refer to UPS/RM2016-2/1, Figure 2.

a. Please confirm the left scale, for "Market Dominant Pieces" is different from the right scale for "Competitive Pieces."

b. Please confirm the scale for "Market Dominant Pieces" is approximately 15 to 20 times larger than the scale for "Competitive Pieces." If you do not confirm, please provide the relative size of the "Market Dominant Pieces" scale relative to the "Competitive Pieces" scale.

c. Please produce a revised table that uses the same vertical scale for both "Market Dominant Products" and "Competitive Products."

3. Please refer to UPS/RM2016-2/1 at 19, where it states,

The machinery required to calculate and distribute inframarginal costs to mail classes already exists, and is submitted by the Postal Service each year as part of its Annual Compliance Report ("ACR"). The machinery in question is a model developed by the Postal Service to calculate **incremental** costs - the sum of volume variable,

product-specific fixed, and inframarginal costs that would be avoided if some portion of volume were removed but the remaining volume were maintained.

Please also refer to Docket No. RM2010-4, Order Accepting Analytical Principles Used in Periodic Reporting (Proposals Twenty-Two through Twenty-Five), January 27, 2010, at 2-5 (Order No. 399, adopting the Docket No. R2000-1 incremental cost model). Please also refer to Docket No ACR2014, Annual Compliance Determination Report, Fiscal Year 2014, March 27, 2015, at 71-72.

a. Please confirm that in the referenced section of Order No. 399, the Postal Regulatory Commission approved the Postal Service's hybrid incremental cost methodology for calculating incremental costs for competitive domestic products. If you do not confirm, please provide your understanding of the referenced section of Order No. 399.

b. Please confirm that the methodology used in Dr. Neels' analysis, as referenced in the above quotation, uses as its basis the incremental cost methodology approved by the Postal Regulatory Commission in Order No. 399. If you do not confirm, please list all differences between the referenced methodology and the accepted incremental cost methodology, and explain the rationale for each listed difference.

**4.** Please refer to UPS/RM2016-2/1 at 36, which states, "Table 8 reports the results of a simple linear regression of inflation-adjusted fixed costs on total weighted volume."

a. Please confirm that Dr. Neels uses the phrase "simple linear regression" in the classical sense of an equation with just one (non-constant) explanatory variable. If you do not confirm, please provide the exact mathematical specification of the equation to be estimated.

b. Please confirm that the single non-constant explanatory variable is what Dr. Neels calls "total weighted volume." If you do not confirm please provide the specification of the explanatory variable.

c. Please confirm that you use the FY 2014 weights for all years for which you calculated the "total weighted volume," except for FY2013 weights used for the Parcel Post product. If you do not confirm, please explain fully.

d. Please confirm that if a component is less than 100 percent fixed (i.e., has some reported attributable costs), the weight applied to the product volumes are the component level unit attributable costs for each mail product. If you do not, confirm, please explain fully.

e. Please confirm that if a component is 100 percent fixed, the weights applied to the volumes are the overall unit attributable costs for each mail product. If you do not, confirm, please explain fully.

**5.** Please refer to UPS-RM2016-2/1, Page 45, Table 11, Row "Not Modeled."

a. Please confirm that the 86 "Not Modeled" components referenced in that row are the components with 'NA' in column AF on the 'All Components Datasheet' in the workbook "Component Fixed Cost Regression Results.xlsx" in UPS-RM2016-2-LR-NP1 (which, because of its nonpublic status, is not generally accessible).

b. If confirmed, please attach a spreadsheet to this response showing for each component the Cost Segment number, the Component Number, the Cost Segment Name, and the Component Name, and please provide FY 2014 attributable costs, FY 2014 inframarginal costs, and FY 2014 fixed costs for each "Not Modeled" component.

c. If not confirmed, for each of the 86 components included within that row of Table 11, please attach a spreadsheet to this response showing for each component the Cost Segment, Component Number, Cost Segment Name, and Component Name, and please provide FY 2014 attributable costs, FY 2014 inframarginal costs, and FY 2014 fixed costs for each "Not Modeled" component.